FLEXIBLE SPENDING ACCOUNT PROGRAMS

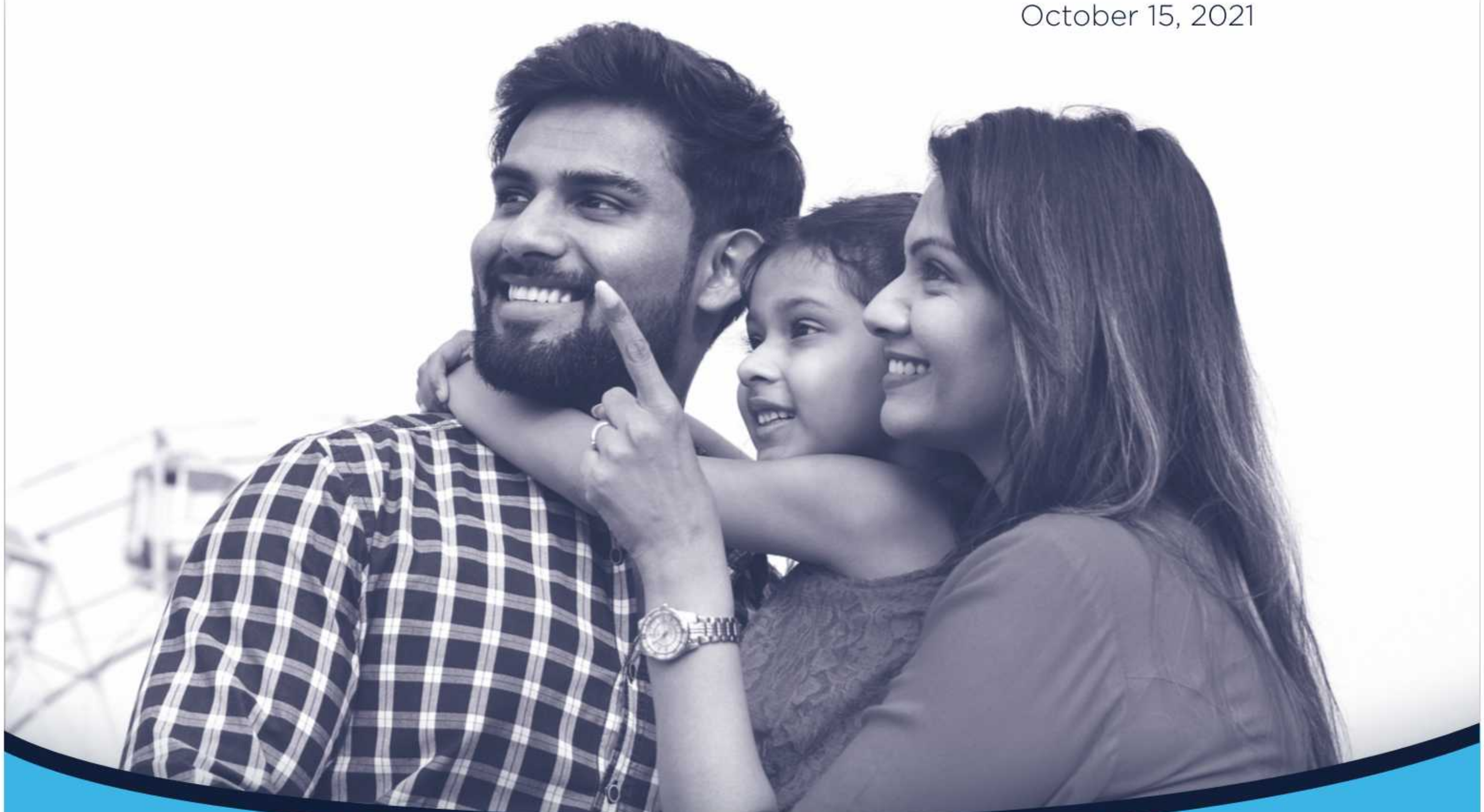
Health Care Spending Account (HCSA) and Dependent Care Assistance Program (DCAP)

Plan Year:
July 1, 2020 to June 30, 2021

Open Enrollment:
April 6 – June 1, 2020

2½ Month Grace Period:
July 1 – September 15, 2021

Claim Filing Deadline:
October 15, 2021



FISCAL YEAR 2021 PLAN

GROUP INSURANCE COMMISSION

PARTICIPANT HANDBOOK

mass.gov/flexible-spending-account-pretax-benefits | benstrat.com/gic-fsa

Commonwealth of Massachusetts
Group Insurance Commission

benefit strategies LLC

OVERVIEW OF THE GROUP INSURANCE COMMISSION FLEXIBLE SPENDING ACCOUNT (FSA) PROGRAMS

Health Care Spending Account (HCSA) and Dependent Care Assistance Program (DCAP)

- **Our plan administrator is Benefit Strategies.**
- **Open Enrollment:** April 6 – June 1, 2020 for July 1, 2020 benefits. Visit **benstrat.com/gic-fsa**.
- **Fiscal Year 2021 Plan**
    - Plan Year: July 1, 2020 – June 30, 2021
    - IRS 2½ month Grace Period: July 1, 2021 – September 15, 2021
    - Final Deadline: Benefit Strategies must receive plan year and grace period claims by October 15, 2021
- These plans require that participants re-enroll each year.
- Use it or Lose it – Estimate your elections carefully. The IRS requires that any funds left in an FSA at year end be forfeited.
- Claims for services must be incurred during the plan year or the 2½ month grace period.
- Payroll error refunds may only be made within 60 days of the mistaken deduction. After 60 days, it is up to the employer (agency) to repay the employee – no refunds will be made from the FSA account.
- All new FY2021 HCSA enrollees will receive a free set of 2 debit cards. Current participants who re-enroll will continue to use their current active cards.
- Be sure to save all itemized receipts and/or insurance explanations of benefits (EOB) statements when using your HCSA debit card; you may be required to substantiate debit card transactions. Failure to provide substantiation may result in the de-activation of the debit card, per IRS regulations.
- Eligibility rules are provided in detail later in this handbook.
- Contribution Limits:
    - **HCSA:** maximum is $2,750 and the minimum is $250 for the Fiscal Year 2021 plan.
    - **DCAP:** maximum is $5,000 for the 2021 Fiscal year plan, or $192.30 max per bi-weekly pay period for mid-year enrollees. (IRS tax year maximum contribution per household is $5,000)
- A lower $1.00 monthly administrative charge per participant for HCSA, DCAP or both

This is a brief summary of the GIC FSA programs. This Participant Handbook provides important details about the plans, eligibility, claims, and appeals and should be carefully reviewed.

Overview of Pre-Tax Reimbursement Accounts

The Commonwealth of Massachusetts' Group Insurance Commission (GIC) sponsors a pre-tax benefit program that includes two tax-saving reimbursement accounts. The GIC has hired Benefit Strategies to administer, adjudicate, and process all reimbursement claims on the GIC's behalf.

The Health Care Spending Account (HCSA), authorized by Internal Revenue Service (IRS) Code Section 125 and the Dependent Care Assistance Program (DCAP), authorized by Section 129 of the IRS code, allow you to set aside pre-tax money from your paycheck to be used for certain health care and dependent care expenses. You then submit your claims for eligible expenses and are reimbursed with tax-free dollars from your account(s) – *this reduces your out-of-pocket health care and dependent care expenses significantly, depending on your tax bracket*.

For most participants, the HCSA/DCAP program provides a better tax benefit than is available to an individual taxpayer who itemizes medical expenses.

The tax benefits of these plans can be derived only from participating in an employer-sponsored program:

- A **Health Care Spending Account** pays for eligible medical, dental, and vision care expenses incurred by you and your dependents that are not covered by insurance.
- A **Dependent Care Assistance Program** pays for eligible dependent care expenses you incur in order to enable you (or you and your spouse, if you are married) to work.

Participating in an HCSA and/or DCAP program can significantly reduce your federal and state income taxes. Through these plans, you pay on a pre-tax basis for eligible health care and dependent care expenses.

Basics of Pre-Tax Reimbursement Accounts

Prior to each plan year, you must choose to enroll or re-enroll, and decide how much money to deposit (see "Annual Contribution Amount" section) into each account.

Important: You cannot change your contribution amount until the next enrollment period unless you have a "qualifying change in status" (see "Making Changes to Your Election").

YOU MUST RE-ENROLL EACH YEAR!

- ✓ Your contributions to HCSA/DCAP will automatically be deducted from your paycheck, in equal amounts, every pay period on a pre-tax basis and sent to Benefit Strategies.
- ✓ When you have an eligible HCSA expense, you can either use your HCSA Debit Card to pay it, or you may pay out of pocket and then file a claim via the Benefit Strategies Mobile App, online portal, or send a claim form by fax or mail. Debit cards should only be used within the current/active plan year (not for previous year transactions during the grace period). You must retain itemized receipts, Explanation of Benefits (EOBs), or other documentation to support your claims. Those documents are required to be submitted with all filed claims but also may be requested to substantiate debit card transactions. You should keep a copy of what you send (photocopy, screen shot, etc.) and you may want to retain proof of sending in case anything is lost in transit.
- ✓ When you have incurred an eligible DCAP expense you can either file a claim electronically via the Benefit Strategies Mobile App or online portal, or send a claim form to Benefit Strategies by fax or mail.
- ✓ Claims are processed daily and reimbursements are deposited directly to your bank account or mailed via a check. All reimbursement benefit payments come with an Explanation of Benefits to make reconciling your records simple and easy, and all information is kept strictly confidential.

Every dollar contributed to the HCSA or DCAP program is made on a pre-tax basis. The Commonwealth of Massachusetts deducts the amount you selected directly from your "gross" wages. This means that plan contributions are sent before federal and state taxes are taken out of your paycheck and you are not taxed after reimbursement!

Check issued reimbursements are mailed to the address on file. A minimum of $25.00 has to be accumulated in reimbursements before a check will be sent, unless the plan year has ended. At the end of the plan year, any pending reimbursements below $25.00 will automatically pay out. Participants can enroll in direct deposit to have reimbursements paid into their bank accounts. Direct deposits have no minimum before reimbursement is made. Banking information can be updated through the online portal or by mailing Benefit Strategies a direct deposit form.

Tax Benefits of HCSA or DCAP Programs

When you enroll in an FSA, your taxable income is less, resulting in less money being withheld from each paycheck for federal/state income taxes. Also, when you are reimbursed from your FSA, that money is not taxed. The result of enrolling in an FSA and using all the money in the account(s) is that it lowers your overall taxable income and therefore gives you more available income.

The following is an **example** of how you could save money by participating:

An employee making $30,000 a year who is in the 25% tax bracket has $7,500 of tax withholdings taken over the course of the year. If she spends $6,000 in FSA reimbursable expenses (e.g. $2,000 in health care expenses and $4,000 in dependent care expenses), after those expenses and taxes her available income is $16,500 a year.

However, if that same employee participated in both the HCSA and DCAP pre-tax programs, the money spent on the very same health care and dependent care expenses ($2,000/$4,000) would be paid from their HCSA or DCAP account, funded by their payroll deductions, **prior to tax withholdings**. Because these funds are not taxed, instead of paying taxes on $30,000, that person is only taxed on $24,000 at 25%, which is $6,000. This saves her approximately **$1,500 a year**. The table below illustrates the example.

BREAKDOWN OF PAYCHECK AND DEDUCTIONS	NOT PARTICIPATING IN HCSA OR DCAP PLAN	PARTICIPATING IN HCSA OR DCAP PLAN
Gross Yearly Pay	$30,000	$30,000
Heath Care FSA Election Annual Contribution (Pretax)	$0	($2,000)
Dependent Care FSA Annual Contribution (Pretax)	$0	($4,000)
Taxable Income	$30,000	$24,000
Sample Tax Withholdings of 25%	($7,500)	($6,000)
Yearly Health Care Expenses	($2,000 post-tax)	$2,000 (Claims reimbursed)
Yearly Day Care Expenses	($4,000 post-tax)	$4,000 (Claims reimbursed)
NET AVAILABLE INCOME	**$16,500**	**$18,000**

Contributions to the HCSA/DCAP plan are not subject to tax at any time. Your year-end W-2 form from the Commonwealth of Massachusetts will properly notify all of the government agencies of your participation in the program.

Estimate your contributions to each plan carefully.

The Internal Revenue Service requires that any money left in either account at the end of the plan year be forfeited (use it or lose it rule). The Fiscal Year Plan runs from July 1, 2020 to June 30, 2021 with an IRS 2½ month grace period to September 15, 2021. (See 2½ month grace period section for more details.)

Eligibility in a Pre-Tax Plan

HCSA – Active state employees who are GIC benefits eligible may participate in the HCSA program. Enrollment in one of the GIC's benefit plans is not required. New employee coverage begins on the first day of the month following 60 calendar days from the first date of employment or two calendar months, whichever comes first. Employees must work at least 18.75 hours in a 37.5 hour workweek or 20 hours per 40 hour workweek. To maintain eligibility, you must continually meet the hourly minimums. You may claim health care expenses under the HCSA plan for you, your spouse, and/or your eligible tax dependents for claims incurred after your effective date.

DCAP – Active state employees who are GIC health care benefits eligible and have eligible dependent care expenses, for a dependent child under the age of 13 and/or a disabled adult dependent, that are necessary for the employee (and spouse, if married) to be able to work may enroll in the DCAP program. Employees hired during the Plan Year are eligible for DCAP on the first day of employment. Employees must work at least 18.75 hours in a 37.5 hour workweek or 20 hours per 40 hour workweek. To maintain eligibility, you must continually meet the hourly minimums.

Enrollment in a Pre-Tax Plan

All employees (re-enrolling and new enrollees) with the Commonwealth of Massachusetts, who wish to participate in HCSA or DCAP will use an online enrollment process, located on Benefit Strategies' website.

HCSA – If you enroll in the HCSA program you will automatically receive a free set of two FSA debit cards, both printed with the participant name on them. If you were enrolled during FY2020, you will continue to use the same debit card(s). You can request additional sets of two cards for the cost of $5.00 per set. **Debit Cards cannot be used for DCAP reimbursements.**

TIP: For information on how to use the HCSA debit card, go to **benstrat.com/gic-fsa** and review the Documents & Presentations section. Use of debit cards is regulated by the IRS and back-up paperwork is required in some cases to substantiate transactions.

Re-Enrolling Participants: You must re-enroll each year to continue benefits. If you were enrolled in either or both plans in FY2020, you must sign in and re-enroll on Benefit Strategies' website during open enrollment. Go to **benstrat.com/gic-fsa** and sign in to your account or to create your username and password for the online portal. Once logged in, click the "Enroll Now" button on the home page.

New Hires: Enrollment e-forms must be completed within 10 calendar days from your date of hire. If you choose not to enroll as a new employee, you will be eligible to enroll in the HCSA and/or DCAP plans for the upcoming Plan Year during open enrollment, unless you have a "change in status" (see "Making Changes to Your Election" on page 7). Enrollment for the HCSA or DCAP takes place before the beginning of each plan year. To join the plan during open enrollment you must complete the HCSA/DCAP Enrollment e-Form, which is available at **benstrat.com/gic-fsa**. **You must re-enroll each year to continue benefits, so if you wish to participate in both FY2020 and FY2021, you must enroll twice.**

TIP: In July 2020, be sure to check your pay statement to make sure deductions are being taken.

Elections cannot be changed or withdrawn after open enrollment has ended on June 1, 2020, unless you have a qualifying event.

Direct Deposit information can be added during the Open Enrollment process; after Open Enrollment, it may be added through the profile tab or updated by paper form. The forms are available at **benstrat.com/gic-fsa**

See the Benefit Strategies website for up-to-date online enrollment information.

Annual Contribution Amount and Administrative Fee

The most important questions you may have are "How much should I contribute?" and "How much do the HCSA and DCAP programs cost?" **You must carefully estimate your election for the HCSA or DCAP plans, as the IRS requires that money not spent during the Plan Year or claims received by Benefit Strategies before the Claim Filing Deadline, including the IRS 2½ Month Grace Periods, be forfeited.** For more information about forfeitures and the IRS 2½ Month Grace Period, see "Plan Year End – 2½ Month Grace Period" on page 9.

The employee share of the monthly administrative cost of these programs, paid for by the employee, is $1.00, regardless of whether you participate in one or both programs.

TIP: You can examine prior-year spending records to help determine what yearly, eligible health care and dependent care related expenses you have. You can also think about any upcoming/planned new eligible expenses you might have.

Health Care Spending Account (HCSA)

Internal Revenue Service regulations set the maximum you may contribute to your HCSA during the 2021 fiscal year. This year the maximum is $2,750. The minimum is $250 (set by the Plan Rules).

Dependent Care Assistance Program (DCAP)

Internal Revenue Service regulations set the maximum you may contribute to your DCAP during the 2021 fiscal year. This year the maximum is $5,000 per family **(not per individual participant)**.

Remember, the amount you select will be deducted from your paycheck on a pre-tax basis in equal installments over the period of the Plan Year. If you become eligible for HCSA or DCAP during the Plan Year by having a "change in status," (page 7) you can make or change an election. Whatever amount you elect will be deducted in equal amounts each pay period for the remainder of the Plan Year. Note that the DCAP program has a maximum election based on Calendar year and household. Mid-plan year elections are limited to a maximum of $192.30 per pay period (based on bi-weekly pay).

You will only be reimbursed for eligible expenses incurred while you are participating in the HCSA or DCAP plan. You cannot be reimbursed for expenses you incurred before your effective date or after you have ceased making contributions prior to plan year end. Be aware that you must take action prior to an unpaid leave in order to keep your benefits active. Please see the HCSA/DCAP Leave of Absence Options (starting on page 9).

Making Changes to Your Election

To comply with IRS regulations, you may only enroll in either plan, change your contribution, or terminate your election *during the Plan Year* if you can demonstrate a qualified **"change in status."** The following events are considered valid changes in status under IRS regulations:

- Change in legal marital status;
- Change in number of dependents;
- Change in employment status that affects your eligibility for the program;
- Change in work schedule, which affects your eligibility for the program;
- Dependent satisfies or ceases to satisfy eligibility requirements;
- Judgment, decree, or order pertaining to child or spouse

A "change in status" request can be made by completing the HCSA/DCAP Enrollment/Change in Status e-form available on the Benefit Strategies website at **benstrat.com/gic-fsa**. This request must be made no later than **60 days** after the status change occurs. The completed online form will be sent to your GIC Benefits Coordinator for verification and approval. You will need to provide your Benefits Coordinator with documentation verifying a change in status, such as a marriage or birth certificate.

Additional status changes allowed for DCAP

As the Commonwealth's response to the COVID-19 outbreak continues to evolve, the GIC recognizes that participants' childcare needs may change during the course of the year. Therefore, DCAP participants are allowed to make a corresponding change in their election due to:

- Increase or decrease in the fee charged by provider;
- Change in provider resulting in an increased or decreased fee;
- Change in the hours of care needed due to employment change;
- Child reaching limiting age of 13 years old;
- Child starting or stopping school that changes the number of hours for which care is needed.

Note: Changes by a provider who is your relative are not considered a permissible status change.

How Do I Get Reimbursed?

As you incur qualified HCSA expenses, you may file a claim for reimbursement with Benefit Strategies or immediately pay for the eligible HCSA expense with the HCSA debit card. If you choose to use the debit card, it is your responsibility to ask the provider for an itemized statement of the service (***not*** the credit card receipt). **Use of the card is not guaranteed to be paperless, and it is always recommended that you take a photo of your statement of service for upload or documentation.**

1. You can submit claims via the Benefit Strategies Mobile Application or online portal and upload your receipts directly into the system; or submit your claim using a **Flexible Spending Account (FSA) Claim Form**. The form is available on the Benefit Strategies website at **benstrat.com/gic-fsa**.
2. All claims must be submitted via the Benefit Strategies Mobile App, the online portal, mailed, or faxed to Benefit Strategies with the required documentation stated on the claim form.
3. **RETAIN YOUR ITEMIZED RECEIPTS (not the credit card receipt) AND/OR INSURANCE EXPLANATION OF BENEFITS (EOB)**, per IRS guidelines. Itemized receipts/statements must include (1) the provider name/address, (2) patient name, (3) date of service, (4) description of service, and (5) dollar amount. Failure to provide substantiation may result in the de-activation of the HCSA debit card.

It is recommended that you retain proof of sending your claim (e.g. screen shot, print out, certified mail receipts, etc.) and a copy of anything you send. It is your responsibility to provide proof of sending claims, should anything get lost.

HCSA: You are permitted to make claims for eligible expenses up to your total annual election, at any time during the Plan Year or Grace Period, provided the expense was incurred while you are making deposits to your account.

DCAP: You may file claims for eligible dependent care expenses against your account balance for expenses you incur until your DCAP account is exhausted.

Claims can be filed with dates of service through the end of the plan year and 2½ month extension, September 15, 2021. **Claims must be received by Benefit Strategies by October 15, 2021 for the 2021 Fiscal Year plan.**

When you submit eligible expenses for reimbursement, you certify that the expense is not reimbursable from any other source. Also, you may only submit for reimbursement for eligible health related expenses from your HCSA, and dependent care expenses.

IMPORTANT: To be considered eligible for reimbursement, the expense must occur during the 2021 Fiscal Year Plan – on or after the date you become a participant in the plan. An expense is incurred when you receive the treatment or service, purchase the supply, or order the items; NOT when you receive a bill or make a payment.

What if My Claim is Denied?

If you disagree with a denied claim or adverse decision regarding your HCSA or DCAP benefit (e.g. denial of claim for reimbursement, eligibility for pre-tax benefits, or election change), and you feel the denial was made in error, you may file a formal appeal.

Your completed Appeal Form must be submitted to Benefit Strategies within **60 calendar days** of the date of the denial, as indicated in the Plan Document, by mail or fax. Use the appeal form to explain the situation and why you believe the claim should be paid. The appeal form is available on the Benefit Strategies website at benstrat.com/gic-fsa. You will also need to submit all appropriate documentation with the completed appeal form, including a copy of the denial notice. You will be notified of the appeal decision within approximately **7-14 business days** of the receipt of your completed appeal form.

Submit all appeals to:
Benefit Strategies, LLC, Attn: Appeals

Mail to: P.O. Box 1300, Manchester, NH 03105

Fax to: 603-232-8079

Email to: commonwealth@benstrat.com

Eligible Dependents

HCSA: You may claim reimbursements for expenses incurred by your legal spouse, any individual who qualifies as your tax dependent under IRS Code Part 152, and any child for whom you are required to provide health coverage pursuant to a Qualified Medical Support Order. Children of divorced parents are considered to be a dependent of both parents.

DCAP: You may claim reimbursements for expenses incurred for an eligible dependent **under the age of 13**. However, if a dependent is mentally or physically handicapped, he or she will remain a qualified dependent for DCAP irrespective of age.

Note: In compliance with the IRS guidelines, the service provider cannot be an individual for whom a personal tax exemption may be claimed.

Eligible Health Care Expenses

Many health care expenses not paid by your medical, dental, and vision plans can be reimbursed from your HCSA. Eligible expenses under a health care spending account are defined as those that are medically necessary, prescribed by a licensed practitioner, and are not reimbursed under another program. To be considered eligible, these expenses must be considered expenses under Section 213 (d) (1) of the Internal Revenue Code. For a comprehensive listing of the eligible HCSA expenses go to **benstrat.com/gic-fsa**

IMPORTANT NOTE: Keep in mind that expenses such as insurance premiums may be deductible on Schedule A of your federal taxes but are not eligible for reimbursement through an HCSA. Certain qualified expenses will require a provider's statement indicating the specific medical condition.

Medical care expenses include payments you make for the diagnosis, cure, mitigation, treatment, prevention of disease, or treatment affecting any part or function of the body. They also include insulin, and medicines and drugs that require a prescription. Over-the-counter (OTC) drugs and some medical supplies are eligible expenses as a result of the CARES Act. Dual purpose items that are not considered drugs or medicine (e.g. vitamins) require a prescription statement of medical necessity. OTC health care products that are not considered a drug or medicine and are not classified as a dual purpose item (e.g. band-aids) are eligible without a prescription or letter of medical necessity.

Eligible Dependent Care Expenses

Eligible dependent care expenses are defined as those that enable the participant and the participant's spouse to work or to look for work. Your DCAP expenses must be for the well-being and protection of a qualified dependent **under the age of 13** or who is mentally or physically handicapped while you and/or your spouse, if married, work or are actively looking for employment. For a full listing of the eligible DCAP expenses go to **benstrat.com/gic-fsa**.

Plan Year End – 2½ Month Grace Period

The IRS requires that any unused funds in participant accounts at Plan Year-end be forfeited. Further, you may not transfer unused money from one account to another. Each account must remain separate.

Since the plan does not allow you to carry amounts from one Plan Year to another, nor for excess contributions to be refunded to you, it is very important that you estimate your contributions carefully.

However, to alleviate forfeiture concerns, the IRS provides a 2½ month grace period in which you can spend down unused plan year contributions in either account. For instance, if you have $100 left over in your HCSA at the end of the plan year, you may still incur eligible expenses until September 15, 2021 that may be applied to your remaining prior year HCSA balance of $100. If you use your HCSA debit card between July 1, 2021 and September 15, 2021, file a claim on the Mobile App or online portal, or submit a paper claim form for eligible expenses incurred during the 2½ month grace period, these expenses will be deducted from the prior plan year first (until they are exhausted) and then the new plan year. Do not use your HCSA debit card after September 15 to spend down your prior year balance. You must file a claim on the Mobile App or online portal, or submit a paper claim form for any expenses incurred prior to the grace period-end by October 15, 2021.

The deadline to submit *all* itemized receipts or insurance EOBs for expenses you incurred during the plan year, including claims incurred during the 2½ month grace period, is October 15, 2021. The HCSA/DCAP Plan Year ends on June 30, 2021 and you must submit all prior year claims – including claims incurred during the 2½ month grace period – by October 15, 2021. After October 15, 2021 your account will be closed for the prior plan year.

Privacy of Medical Records

Under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") group health plans, such as the health care spending account and the third party service providers, are required to take steps to ensure that certain "Protected Health Information" (PHI) is kept confidential. You may receive a separate notice that outlines the health privacy policies of the plan or visit **mass.gov/service-details/hipaa-privacy-forms** to view the GIC's HIPAA Notice of Privacy Practices.

HCSA/DCAP Leave of Absence Options (LOA)

There are two types of Leaves of Absence: Paid and Unpaid. Prior to going on a LOA, an Enrollment/Status Change e-form must be completed online. This form will be provided to your Benefits Coordinator to verify your leave. The e-form is available at: **benstrat.com/gic-fsa**.

LOA – Paid

- **HCSA –** Deductions will continue to be taken from your pay each pay period and your HCSA coverage will continue uninterrupted. Expenses can be incurred before, during, or after the LOA.
- **DCAP –** Deductions can continue to be taken if you think you will have enough incurred expenses while you are actively working. Expenses can only be incurred before or after the LOA. No expenses may be reimbursed that were incurred while on the LOA. If you choose to stop your DCAP deductions, see the LOA section "Returning from an Unpaid LOA".

LOA – Unpaid

During an unpaid LOA, generally, there is no coverage for incurred expenses. If you wish to use HCSA funds for eligible expenses on an unpaid LOA, you must continue coverage by choosing one of several options: 1. prepaying your contributions, 2. direct bill payment while on LOA, or 3. payment upon return. Each choice may have different consequences, so please evaluate them carefully.

You may also choose not to be covered during your LOA and adjust your deductions accordingly (please see page 11 for more information).

Prepay

- **HCSA –** Participants enrolled in the HCSA have the option of having a lump sum, pre-tax deduction taken from their last check(s), before the unpaid leave starts. This will cover the period of time that no payroll deductions are being taken. If you prepay, your debit card will remain active and you may continue using funds and submitting claims through the prepaid time period.

Example: Unpaid Leave of Absence (LOA) Prepay - HCSA Jane is going on an unpaid LOA from 5/1-5/31. In order to use her HCSA account on unpaid LOA she will have the two deductions that would be due in May taken out of her last April paycheck before the unpaid leave. This prepayment allows the account to stay active and Jane to incur expenses for reimbursement while on unpaid LOA.

- **DCAP –** DCAP participants are urged to consider stopping their deductions while on LOA, as IRS regulations state that you must be at work or a full-time student to qualify for the benefit. If you think you can claim your full election using dates of service that are <u>not during your leave</u>, you can prepay DCAP contributions.

Example: Unpaid Leave of Absence (LOA) Prepay - DCAP John elected $2,500 for his DCAP plan year and is going on unpaid parental leave 5/1-5/31. John thinks he will incur $2,500 of DCAP expenses between 1/1-4/30 and 6/1-6/30. He prepays the May deductions prior to the LOA. **Remember, per IRS rules, John cannot use his DCAP account for dates of service while on leave.**

Direct Bill – NOT PRE-TAX

- **HCSA –** You have the option to be directly billed for premiums and administrative fees while on LOA. Direct bill deductions will be post-tax, as they are not occurring through payroll. **You must request direct billing in writing by completing the *Enrollment/Status Change e-form* before or at the beginning of the unpaid leave.** The form will be sent to your agency Benefits Coordinator for approval. Benefit Strategies will invoice you every two weeks with the amount due. You must pay the premium no later than the pay date on which the employee would have received a paycheck had they been active. Payments must be made in a timely manner for the HCSA debit card and account to remain active. **There is no grace period for a missed direct payment. If a payment is not paid by the due date, then coverage is discontinued until the employee's return to active status.**

Example: Unpaid Leave of Absence (LOA) - Direct Bill Jane is going on an unpaid LOA from 5/1-5/31. In order to use her HCSA funds while on unpaid LOA, she must fill out and submit the FSA Change Form, requesting to be direct billed for May premiums. She will receive an invoice for her premiums and must remit payment directly to Benefit Strategies. Her account will remain active while she is contributing.

- **DCAP –** Since direct pay is on an after-tax basis, there is no benefit for participants to continue DCAP deductions directly while on the LOA. Per IRS regulations, you must be at work or a full time student in order to be able to use the benefit. Expenses can only be incurred before or after the LOA. No expenses may be reimbursed that were incurred while on the LOA.

Pay Upon Return

- **HCSA –** You may make up any deductions missed due to unpaid LOA on a pre-tax basis when you return. Coverage will be backdated to the LOA start date when the payment amount is setup in payroll by your Benefits Coordinator. This allows you to claim for HCSA expenses incurred while on LOA. The debit card is not active during your LOA, but will be reactivated upon your return.

Example: Unpaid Leave of Absence (LOA) - Pay Upon Return John is going on an unpaid LOA from 5/1-5/31 and did not prepay or direct pay contributions, but incurred qualified medical expenses. To claim those expenses, he can work with his GIC Coordinator to make up the deductions. Once setup in payroll, his coverage is backdated to the beginning of his LOA and he can submit claims.

- **DCAP –** DCAP participants are urged to consider stopping their deductions while on LOA, as IRS regulations state that you must be at work or a full-time student in order to be able to use the benefit. If you think you can claim your full election using dates of service that are <u>not during your leave</u>, you may make up your DCAP contributions similar to the HCSA pay upon return option; however, your coverage will not be retro to the start of your LOA. You can only increase your biweekly pay period maximum to $192.30.

Example: Unpaid LOA Prepay (DCAP) Jane went on an unpaid parental leave 5/1-5/31. Jane thinks she will incur enough expenses between 1/1-4/30 and 6/1-6/30 to use her full election. Upon return she makes up her May deductions, to use for dates of service while active. **Remember, per IRS rules, Jane cannot use her DCAP account for dates of service while on leave.**

LOA – No Coverage with Adjusted Election

- **HCSA –** You may choose to stop coverage for an unpaid LOA and restart it again upon returning to work with an adjusted, lower election amount. Your election will be reduced by the amount of missed deductions or another lower amount (no lower than what you have already contributed). Depending on your newly adjusted election, your deductions will be recalculated, if necessary. Remember, under this option, you may not use your HCSA debit card and no claims can be incurred while on LOA. When you return to work, you need to work with your GIC Benefits Coordinator to resume and/or adjust your deductions. Returning from an unpaid LOA is not a qualifying event to terminate your account.

Example: Unpaid LOA No Coverage - HCSA
Jane goes on an unpaid leave from 5/1-5/31. She discontinues her HCSA coverage while on LOA. Jane's coverage and remaining premium will be adjusted upon her return to work and she cannot claim for dates of service during her LOA. When she returns, she will work with her GIC Benefits Coordinator to restart premium deductions, accordingly.

- **DCAP –** Participants enrolled for the DCAP benefit are urged to consider stopping their payroll deductions while on LOA, as the IRS regulations state that you must be at work or a full-time student in order to use the benefit. When returning from LOA, you need to work with your GIC Benefits Coordinator to resume DCAP deductions, accordingly, similar to the HCSA no coverage with adjusted election.

Paid Leave Change to Unpaid Leave

If you are on a Paid Leave that converts into Unpaid Leave (e.g. you may have run out of paid time off), the process and options of Prepay or Direct Billing must be completed before the change in leave occurs and before payroll deductions are stopped. If the change occurs without Prepay or Direct Billing being selected, your account will go into a status of no coverage and your card will be suspended.

IMPORTANT: If you are on unpaid LOA at the end of the Plan Year and you have not contributed your elected amount, you forfeit the Grace Period. You may only submit for reimbursements during the time you were an active employee, on payroll, and making contributions (i.e. this is your coverage period for that Plan Year).

If You Terminate State Service During the Plan Year

If you leave state service during the Plan Year whether you resign, retire, or involuntarily separate, your participation in HCSA and DCAP will terminate at midnight on the day of termination and your HCSA debit cards will be inactivated. You will still be able to submit claims for eligible health care expenses incurred on or before your last day of active employment.

For the Plan Year of July 1, 2020-June 30, 2021, you have until October 15, 2021 to submit all claims. See the following information about using your account after you terminate state service:

- **HCSA –** You may elect to continue to contribute to the HCSA account under COBRA by making direct payments on an after-tax basis. Your eligibility for HCSA COBRA will be determined by Benefit Strategies. Benefit Strategies will send the COBRA Qualifying Event Election Notice directly if you qualify for HCSA COBRA coverage. If you elect HCSA COBRA coverage, the amount billed to you will include a 2% administrative fee.
- **DCAP –** You may file claims for eligible dependent care expenses against your account balance for expenses you incur until your DCAP account is exhausted. Claims can be filed with dates of service through the end of the Plan Year as long as you are actively working, actively seeking employment, or a full time student. Claims must be filed by October 15, 2021.

Transfer vs. Rehire

If you are enrolled in the FSA plan and your employment status changes with the Commonwealth, adjustments need to be made according to your specific situation.

Transfer – If you transfer employment between state agencies, and remain in a GIC benefits eligible position, with no break in employment, HCSA and DCAP coverage will continue with no change. You need to work with your GIC Benefits Coordinator at both your prior and new agency to ensure deductions continue. If you have unpaid time between the two positions, you will not have coverage for your unpaid/unemployed dates.

Rehire – This is treated the same as transferring agencies: generally, you do not have coverage for unpaid/unemployed dates, except as outlined below.

Less than 30 days and rehired into a GIC benefits eligible position – There is no break in employment status. HCSA and DCAP enrollments will remain the same and deductions need to be adjusted according to the remaining pay periods, if any pay periods are missed. Work with your GIC Benefits Coordinator at your (old and/or new) agency to ensure deductions continue. There is no HCSA coverage for dates when you are not employed by the Commonwealth in a GIC benefits eligible position. DCAP coverage is available if you are actively working, actively seeking employment, or a full-time student.

More than 30 days and rehired into a GIC benefits eligible position – When there are more than 30 days between leaving a state agency position and starting a new state agency position (at the same or different agency), you are treated as a New Hire. Your prior election coverage is stopped, effective the date you left state service. When you are rehired, you may make a new election, subject to applicable waiting periods, as stated in "Eligibility of a Pre-Tax Plan" (page 5). Remember that the IRS sets maximums of HCSA and DCAP elections, so your new elections must not exceed the yearly maximums, including what you may have already set aside earlier in the plan or tax year. The new elections and deductions taken will only be eligible for expenses occurring after your new effective date through end of the grace period. There is no HCSA coverage for dates of non-employment. Your prior DCAP coverage is available if you are actively working, actively seeking employment, or a full-time student. Fill out the 2021 GIC Enrollment e-Form to make a new election **within 10 days** of your new hire date.

GROUP INSURANCE COMMISSION

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Group Insurance Commission
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Boston, MA 02114

FSA Page
mass.gov/flexible-spending-account-pretax-benefits

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